



Steven L. Beshear  
Governor

Robert D. Vance, Secretary  
Environmental and Public  
Protection Cabinet

Larry R. Bond  
Commissioner  
Department of Public Protection

Commonwealth of Kentucky  
**Public Service Commission**  
211 Sower Blvd.  
P.O. Box 615  
Frankfort, Kentucky 40602-0615  
Telephone: (502) 564-3940  
Fax: (502) 564-3460  
psc.ky.gov

Mark David Goss  
Chairman

John W. Clay  
Vice Chairman

Caroline Pitt Clark  
Commissioner

February 20, 2008

**PARTIES OF RECORD:**

RE: Case No. 2007-00556  
APPLICATION OF KENERGY CORP. FOR AUTHORIZATION TO  
ASSUME OBLIGATIONS OR LIABILITIES IN RESPECT TO  
EVIDENCES OF INDEBTEDNESS

Enclosed please find a memorandum that has been filed in the record of the above-referenced case. Any comments regarding this memorandum's content should be submitted to the Commission within five days of receipt of this letter. Questions regarding this memorandum should be directed to Isaac Scott at (502) 564-3940, extension 444.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell  
Executive Director

Attachments

**INTRA-AGENCY MEMORANDUM**

**KENTUCKY PUBLIC SERVICE COMMISSION**

**TO:** Main Case File – Case No. 2007-00556  
**FROM:** Isaac Scott, Team Leader   
**DATE:** February 20, 2008  
**SUBJECT:** February 14, 2008 Informal Conference

Pursuant to the Commission's February 8, 2008 Notice of Teleconference, an informal conference was held via telephone on February 14, 2008. Those participating at the conference were:

Kenergy Corp. ("Kenergy") – Sandy Novick, Steve Thompson, and Frank N. King, Jr.

CoBank, ACB ("CoBank") – Nick King and Jeff Milheiser

Commission Staff – Richard Raff, Isaac Scott, Dawn McGee, and Aaron Greenwell

The purpose of the informal conference was to discuss with Kenergy and representatives of CoBank the proposed interest rate hedging program.

CoBank did a walk through of the presentation included in Kenergy's application as Exhibit 2. The presentation focused primarily on the hedging option known as "Treasury Locks." With a Treasury Lock, a forward-looking interest rate is locked in and no money is paid upfront by Kenergy. If interest rates at the time of the actual loan drawdown are lower than the locked rate, Kenergy would pay CoBank the present value of the difference in the interest rates, discounted over the term of the loan. If interest rates at the time of the loan drawdown are higher, CoBank would pay Kenergy the present value of the difference in the interest rates, discounted over the term of the loan.

Commission Staff asked several questions concerning Treasury Locks including how early someone would normally establish a Treasury Lock, how the forward price was established, and how Kenergy would evaluate its initial experience with Treasury Locks. At present, Kenergy is considering long-term Rural Utilities Service ("RUS") financing that will have a fixed interest rate. RUS does not offer its borrowers any interest rate hedging programs, but CoBank does offer such programs for RUS borrowers. CoBank indicated that a Treasury Lock works well with fixed

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interest rate financing. Other hedging program options, such as interest rate swaps, caps, floors, and collars are generally used when “floating” or variable interest rates will be utilized.

The conference adjourned with the Commission Staff indicating that while the conference had been helpful, it may be necessary to ask for additional information.

Honorable Frank N. King, Jr.  
Attorney at Law  
Dorsey, King, Gray,  
Norment & Hoppood  
318 Second Street  
Henderson, KY 42420

Steve Thompson  
Kenergy Corp.  
3111 Fairview Drive  
P. O. Box 1389  
Owensboro, KY 42302